

FINAL REPORT

(CORRECTED VERSION)

STUDY No. 1

EMPLOYMENT IN THE MICRO-ENTERPRISES, BY ECONOMIC ACTIVITY AND URBAN AND RURAL SECTORS.

**Presented by:
J.B. CONSULTORES, S.A. DE C.V.**

September 2001

EMPLOYMENT IN THE MICRO-ENTERPRISES BY ECONOMIC ACTIVITY AND URBAN AND RURAL SECTORS.

Content:	Page:
Executive Summary	
I. Introduction	4
II. Description of the environment	5
A) Macroeconomic Background	5
B) Employment Background	6
I. Working Hypotheses	6
II. Methodology	7
III. Description of the Level of Employment and Income In the Micro-entrepreneurial Sector	7
A) Importance of the Employment in the Micro-enterprise	7
B) Employment by Economic Activity	9
C) Employment by Urban – Rural Sector.....	10
D) Employment by gender	12
E) Employment in the Micro-enterprises by County Town	14
F) Permanent and Temporary Employments	15
D) Detected Variations in the level of employment	16
IV. Behavior of the Economy and Development in the Micro-entrepreneurial Economic Activity	17
VII. Restrictions for the Employment Generation in the Micro-entrepreneurial Sector.....	19
A) Restrictions derived from the Setting	19
B) Restrictions derived from legal requirements	20
C) Restrictions derived from Managerial capacity	21
VIII. Conclusions	22
a. References	
b. Annexes	

EMPLOYMENT IN THE MICRO-ENTERPRISES BY ECONOMIC ACTIVITY AND URBAN AND RURAL SECTORS.

Executive Summary:

The document presents a description of the employment in the micro-enterprises by economic activity, sectors, gender and other variables. In the Macroeconomic background, it is pointed out that the structural and contextual situations of the economy, have headed for a crisis reflected in the reduction of the growth rate of the GNP (Gross National Product). The rate of quarterly growth, in the third trimester of the year 2000, was only a 1.6%; macroeconomic indicators like the IVAE (Spanish acronym) or Rate of Volume of the Economic Activity, also presented an annual growth of just a 0.1% until December 2000, a much lower growth to that reported on the same month in 1999. The annual inflation, point by point, by December 2000, was a 4.3% higher than to that observed in the last three years. The coffee and sugar cane low international prices, and the increment in the price of the petroleum, increase the rate of unemployment and sub-employment; thus, originating an expulsive social behavior of the economy, and causing a rise in the number of micro-enterprises.

The employment rates, according to the Multipurpose Household Survey (EHPM, Spanish acronym) show that in 1999 there were 4,644,586 people considered as Population of Working Age, (PET, Spanish acronym) establishing that the Working Population (PEA, Spanish acronym), which is that part of the PET that actively participates in the labor market, was of 2,444,959 people. According to the same source, it is calculated that the full employment is a 61.1%; the sub-employment a 31.9%; and the rate of unemployment a 7.0%.

In 1999, the micro-enterprises generated a total of 949,400 employments, in which almost 42% of the working people are employed, thus, emphasizing the importance of this sector as an employment generator; as the GNP has decelerated generating employment reductions, for instance in the agricultural sector, in which it had been reduced up to the 9.8% in 1999; in the micro-enterprises, the employment reached growth rates up to an 18.5% in 1998, and an 8.9% in 1999.

The income generated by the micro-enterprises is also important: According to the EHPM, 53.2% of the income sources of the households of the micro-entrepreneurs came from the micro-enterprises, and the 42.6% from other sources.

The generation of employment in this sector is clearly strong in some of the economic activities: the micro-enterprise concentrates its strength in the tertiary

sector. Commerce, hotels and restaurants, provided employment to 397,452 people, reaching almost the 60% of the full employments generated. The manufacturing with the 24% closely follows it. A great number of the generated employments are concentrated in the urban area with the 72.7% of the total. The number of temporary jobs, similarly, is also higher in the urban sector than in the rural sector, being this 3% and the 1.1% respectively.

By gender, in 1999, the micro-enterprises provided direct employment to 424,840 women, and to 285,770 men; there is a tendency for women to be proprietors more than men in the different productive areas, in the 77.9% of the cases compared to that of the men who represent the 60.0%.

In the geographical area, the generation of employment is higher in San Salvador and in La Libertad, which together make the 44.9% of the total of jobs offered in the different sectors of the micro-enterprise. Cabañas is the county town of the Republic with the lowest number of working people with only 1.4% of the total.

Micro-enterprises face a variety of restrictions for their development. Three categories can be mentioned: those derived from the variations and influences of the environment, which produce unemployment when there is a reduction in the economic growth; thus, forcing the salaried people to look for different options to earn a living.

Another important restriction is the excessive number of legal requirements to constitute a "formal" enterprise, making the entrepreneurs avoid it. There are 42 steps-requisites to achieve this. Only a 4.7% of the total number of micro-entrepreneurs is affiliated to the Salvadoran Social Security Institute (ISSS, Spanish acronym). Furthermore, 23% of these businessmen do not count with a formal instruction which prevents their managerial capacity from developing adequately; meanwhile 84.9% has studied up to ninth grade or less. It is worrisome to find out that the level of studies among people in the urban area reaches an average of only 5.29 years, and only a 2.91 in the rural area.

I. Introduction.

In this document, it is shown the relationship between the number of employments generated by the micro-enterprises according to the different activities carried out, and the places where they are located. The phenomenon of the micro-enterprises come out as the formal economic sectors reduce their employment capacity either because of improvement in their way of production and implementation of high technology, or because of the reduction in the market scope, which forces the industries, commerce, and public service enterprises to dwindle their costs by dismissing personnel.

The hypothesis guiding this research is expressed in the idea presented in the previous paragraph. It is intended to demonstrate that there exists a close correlation between the growth of the micro-enterprise sector and the reduction in the economic activity in general.

It is also important to take into account that there are other factors included in this work such as the "Expulsive Behavior" of the population, which results in an almost inevitable migration to other countries, particularly to the United States and Canada, which offer both better job opportunities and social stability. Usually, young men under 35 years of age and who reside in rural areas or small villages are the ones who emigrate trying to find a better way of living. On the other hand, those over 35 years of age try to settle down by creating their own businesses. This is the basis for the development of this study.

It is important to clarify that the universe for this study, 499,246 micro-enterprises, was taken from the 1999 Multipurpose Household Survey (EHPM, Spanish acronym); that is to say, that those professionals who are carrying micro-entrepreneurial activities unrelated to the free exercise of their specialty have been excluded in the filter used for the data base. If they were included, the noted figure would be higher than 12 thousand entrepreneurs, approximately.

II. Description of the Setting

A. Macroeconomic Background:

In El Salvador, the behavior of the recent economic activity was associated to a decrease in the internal demand and to the egress of resources due to the deterioration in the terms of the exchange. This means that the export prices, as in the case of sugar and coffee, were affected by the market conditions; and those of export, particularly the petroleum, rose during 1999 and the year 2000.

The Rate of Volume of the Economic Activity (IVAE, Spanish acronym), twelve months changeable average, registered to December 2000 an annual growth of 0.1%, a lower growth to that reported the same month the previous year.

It must be pointed out the stable behavior shown by the short term economic activity (measured as the three months changeable average of the IVAE) as well as the recovery observed in the indicator of the cycle-tendency of the IVAE about the middle of the previous year.

The economic activity behavior was influenced by the loss of dynamism of the domestic demand, the delay in the execution of the public and private investment, as well as the deterioration in the exchange terms, which implied an additional egress of the resources for the economy.

The quarterly GNP rate (PIB, Spanish acronym) registered a behavior similar to that of the IVAE showing a lower growth in goods and services in relation to that observed the previous year; at the third quarter it registered an 1.6% annual variation.

With regard to the general level of prices, the constant going up of the international prices of the petroleum, the abolition of the exemptions to the value-added tax, and the gradual reduction to the electric power subsidy were the factors that mostly affected the behavior in the prices during the year 2000 were fundamental.

At the end of the year, the annual inflation, point by point, measured by the annual variation of the retail price index (or consumer price index) registered a rate of 4.3%, surpassing not only what had been observed in the last three years, but also the goal estimated between 2.0% and 4.0 %.

The steady price run-up of the oil derivative products influenced to the 2.8% imported inflation of the run-up of the prices. To this respect, it was noticeable the contribution had by the prices in the United States and Guatemala, commercial senior partners.

B. Employment Background:

The Multipurpose Household Survey, which uses the international regulations of the International Conference of Statisticians (Estadígrafos) of the Work (CIET, Spanish acronym) to measure the employment and unemployment, determines that in 1999 the Population of Working Age (PET, Spanish acronym) was 4,644,586 people. The criterion used in El Salvador as well as in other Latin American countries for the working age is from 10 years on.

The Working Population (PEA, Spanish acronym) defined as part of the PET, which participates in the employment market, was 2,444,959 people during the same year. An interesting indicator is the relationship of the PEA over the PET, or the Global Participation Rate, which was 52.6% in 1999.

The PEA is composed by a 61.1% of full occupation, 31.9% of sub-employed, and a 7.0% of unemployed people. A 39.1% of the working population is placed in the agriculture, stockbreeding, hunting and fishing; also it is strongly concentrated in the trading sector, hotels and restaurants with a 29.3%, and a 12.0% in the Manufacturing Industry.

The incidence of sub-employment in El Salvador is high. The rate presented by the EHPM has two modalities: the perceived sub-employment or by working hours, and the unperceived or by income. In the first one, there can be classified those people who being employed work less than 40 hours per week, and the classified as unperceived sub-employed are those who being working for 40 or more hours per week get an income below the current minimum wage. Among the total number of sub-employed people, only the 3.1% are perceived sub-employees, and the 28.8% are unperceived sub-employees or by income.

III. Working Hypotheses

In the study, three base hypotheses have been used, stated according to preliminary studies and to the perceptions of the consultants in relation to the nature of the economical and social situation prevailing among the micro-entrepreneurial sector.

The hypotheses used in this study, relating the level of employment generated by the micro enterprises, are the following ones:

- 1 "The greatest or smallest dynamism in the economic activities of some sectors considered as economy promoters directly influence both in the income and in the employment levels in the micro enterprises; as the growing rhythm declines, new enterprises are created; however, the total income of the sector declines. When the

economy is reactivated, a reduction in the number of micro enterprises is not observed, but there is a relative higher level of income in themselves.”

- 2 “The micro entrepreneurial activities in the urban areas relatively generate more income and employment than those located in the rural areas.”
- 3 “The micro enterprises of extended accumulation are usually greater generators of income and employment than the segments of subsistence and simple accumulation; that is to say, that there exists a high correlation between the size and the generation of employment and income.”

IV. Methodology used:

This study has initiated from an ad-hoc structure of charts obtained from the 1999 Multipurpose Household Survey (EHPM, Spanish acronym), and from a series of documents on the development of the micro enterprise in El Salvador; in some cases, some examples have been taken from other countries to compare. This topic has been approached under two aspects in the use of methodological tools: the base founded on the most recent figures available in the 1999 EHPM; and the bibliographical referential base cited at the end of this document.

V. Description of the Level of Employment and Income in the Micro entrepreneurial Sector.

A) Importance of the employment in the Micro enterprise.

It is necessary to emphasize that the micro enterprise, considered within the three strata: of Subsistence, Simple Accumulation, and Extended Accumulation, is an important employment generator. The 38.8% of the Working Population (PEA, Spanish acronym) is classified within the micro enterprise, and the employment generated by them has been found to be the 41.7% in 1999, the year of the Household Survey according to the following chart. The importance of those enterprises with less than 10 employees as employment generators is noticeable by checking the figures in chart No.1, in which the total employment generated by the enterprise reaches the 949 thousand employments, which represent, as has already been mentioned, almost the 42% of the total of employed people that year.

Table No. 1**Importance of the Employment in the Micro enterprises**

Sector	Total	Area:		Sex	
		Urban	Rural	Male	Female
Working Population	2,445,000	1,533,900	911,100	1,474,400	970,600
Employed	2,274,800	1,427,500	847,300	1,349,100	925,600
Employed Emp 1-10	949,400	688,400	261,000	448,800	500,600
Employed in Micro-enterprises:					
PEA % (Sp. Acronym)	38.80%	44.90%	28.60%	30.40%	51.60%
Employed %	41.70%	48.20%	30.80%	33.30%	54.10%
Unemployment:	7.00%	6.90%	7.00%	8.50%	4.60%

Source: Characteristics of the Salvadoran Micro entrepreneurial Sector, 1999.

The next Table shows particularly the behavior observed during the three years considered in this Table, always emphasizing the importance of the employment generated by the micro enterprises.

Table No. 2**Growth of the Aggregate Employment Level in the Micro entrepreneurial Sector.**

Years:	1997	1998	1999	% 98-97	% 99-98
PEA (Sp. Acronym)	2,245,400	2,403,200	2,445,000	7.00%	1.70%
Employed Population	2,066,500	227,500	2,274,700	7.80%	2.10%
Agricultural	527,300	539,300	486,500	2.30%	-9.80%
No Agricultural	1,539,200	1,688,100	1,788,200	9.70%	5.90%
In enterprises 1-10 employees	849,900	887,700	949,400	4.40%	7.00%
1 employee	389,800	342,500	37,310	-12.10%	8.90%
2 to 10 employees	460,100	545,200	676,300	18.50%	5.70%
Others	1,149,400	1,345,600	1,415,200	17.10%	5.20%
Occupation in micro enterprises	41.1%	39.9%	41.7%		

Source: Characteristics of the Salvadoran Micro entrepreneurial Sector, 1999. EHPM – CONAMYPE, 2001.

It is evident that those figures that show an economic reduction (the growth of the GNP has decelerated since 1995) and the level of employment within

the micro entrepreneurial sector has increased, showing an inverse but very high relation between both variables. It can be seen that as a consequence of the acute reduction experimented by the agricultural sector during those related years (it missed participation in its contribution to the NGP almost in 5 percent points) the level of employment was reduced in a 9.8% in 1999 in relation to the previous year. While in the micro enterprises there were growth rates of employment up to the 18.5% in 1998, and of 8.9% (of an employee) in the year 1999. This demonstrates the importance of the micro enterprises, whose contribution to the reduction of the levels of poverty is extremely important as can be seen in the following figures.

Table No. 3
Revenue resources and Monthly Average Revenue for the Micro entrepreneurs' Homes by geographical area.

(Colones and Percentages)

Source:	Total Urban	AMSS	County town	Another Urban	Rural	TOTAL:
Micro enterprises:	2,397.7	2,557.6	2,508.0	2,171.0	1,420.0	2,120.0
Other sources:	1,947.2	2,508.3	1,463.1	1,611.2	1,066.6	1,696.9
Remittance:	175.2	173.3	227.4	149.7	138.7	164.8
Total Revenue:	4,520.1	5,239.2	4,198.5	3,931.9	2,626.1	3,981.7
Micro enterprises (%)	53.0%	48.8%	59.7%	55.2%	54.1%	53.2%
Other sources(%)	43.1%	47.9%	34.8%	41.0%	40.6%	42.6%
Remittance (%)	3.9%	3.3%	5.4%	3.8%	5.3%	4.1%

Source: Salvadoran Micro entrepreneurial Sector Characteristics, 1999. EHPM, CONAMYPE, 2001.

The previous Table shows the importance of the revenue generated by the micro enterprises when compared to other revenue resources. From the different micro entrepreneurial activities, the families obtain a 53.2% of their income per home; other resources contribute with a 42.6%, and only the 4.1% of the monthly average income is obtained from family remittances. It is appropriate to point out that the contribution to the revenue made by the micro entrepreneurial activity is higher in the cities' county towns than in the rest of the geographical areas including the Metropolitan Area in San Salvador (AMSS, Spanish acronym), where micro enterprises contributed with the 48.8% of the micro entrepreneur's home income. However, it is in the AMSS where the average contribution is higher, surpassing almost in a 2% the average income observed in the county towns.

B. Employment by Economic Activity:

The number of employments generated by the micro enterprises is really important for the economy of El Salvador. The total number reported by the Multipurpose Household Survey is 949,400 employed people in 1999. According to the same survey, during that same year, the total number of employed people among all the enterprises, including the micro enterprises, was 2.274,800 people; being the 41.7% the employment generated by the last ones both in the urban and rural areas.

When analyzing the same proportion by gender, the generation of employment for women was, in the micro enterprises, 54.1%; while for men, the proportion of employees in micro enterprises in relation to the total of the same sex was only the 33.3%. That shows, in part, the importance of the level of employment generated by the micro enterprise, and the vast participation women have as an active agent in all the different economic activities of the sector. In the next Table, the participation by gender is pointed out according to the economic activity in the micro enterprises. Commerce, hotels, and restaurants constitute the larger size of employments generated, being these 397,452 which constitute the 55.9% of the total number of employments within the already identified sectors. The next in importance, as an employment generating sector, is the manufacturing with the 24.1%. Also Transport, Warehousing, and Communications are as well important employment generators with the 5.7%, and the municipal and social services with the 7.9%

Table No. 4

Full Employment Distribution (Urban and Rural) in the Micro enterprises, by gender and Economic Activity.

Economic Activities:	Male	Female	Total:
Manufacturing	66,303	105,100	171,403
Commerce, Hotels and Restaurants	126,021	271,431	397,452
Transport, Warehousing and Communications	39,554	1,221	40,775
Financial Intermediation	5,116	1,521	6,637
Municipal and social Services	11,996	44,148	56,144
Other	36,780	1,419	38,199
Total:	285,770	424,840	710,610

Source: Multipurpose Household Survey, 1999. Own Elaboration.

C. Employment by Urban - Rural Sector

The employment generated by the micro enterprises has been a small one traditionally if considered per enterprise, but it is extremely significant at a national level. The concentration of the micro enterprises is in the urban sector (71.4% in 1996, 76.9% in 1998, and 71.75% in 1999, according to Multipurpose Household Surveys in each year). Similarly, the employment at a national level is much the same in spite of the fact that El Salvador has always been considered an active participant country of the agricultural sector in the NGP. The rural sector has always been evaluated as weak with regard to the revenue level, employment, education, health, housing, and other indicators related to human development.

The concentration of the micro enterprises in the urban areas results from the structural imbalance which characterizes the underdeveloped economies.

In the next Table, it can be observed the employment generation according to data from the 1999 EHPM:

Table No. 5

Number of Employees in Micro enterprises in the Urban Area, by gender, and condition, According to Occupational Category. 1999.

Urban:	Permanent:		Temporary	
	Male	Female	Male	Female
Total:	200,737	301,380	12,396	2,308
Proprietors	125,704	234,547	344	91
Administrator	1,519	151	69	0
Operators	50,294	21,436	7,275	1,328
Apprentices	1,522	200	4,182	556
No remunerated	21,698	45,046	526	333

Source: Multipurpose Household Survey , 1999. Own elaboration.

In the previous Table, it can be noticed that the employment generation is highly concentrated among the female sex when it is permanent and in the male sex when it is temporary.

Table No. 6

Number of Employees in Micro enterprises in the Rural Area, by gender, and condition, According to Occupational Category. 1999.

Rural:	Permanent:		Temporary	
	Male	Female	Male	Female
Total:	70,804	120,823	1,833	329
Proprietors	45,412	96,622	174	0
Administrators	0	0	0	0
Operators	12,292	2,338	1,499	87
Apprentices	484	148	160	170
Non-remunerated	12,616	21,715	0	72

Source: Multipurpose Household Survey, 1999. Own elaboration.

The number of employments generated by the micro enterprises in the rural areas hardly represents a third of the total generation in the same sector. The characteristic related with the occupational category is kept approximately under the same proportions in relation to the total.

D Employment by gender.

Traditionally, the Salvadoran woman has characterized herself for founding her own business. Women's predominance within the micro enterprises sector as a means of subsistence is remarkable.

Table No. 7

Full Employment Generated by the Micro enterprises in El Salvador, by gender and according to Occupational Category.

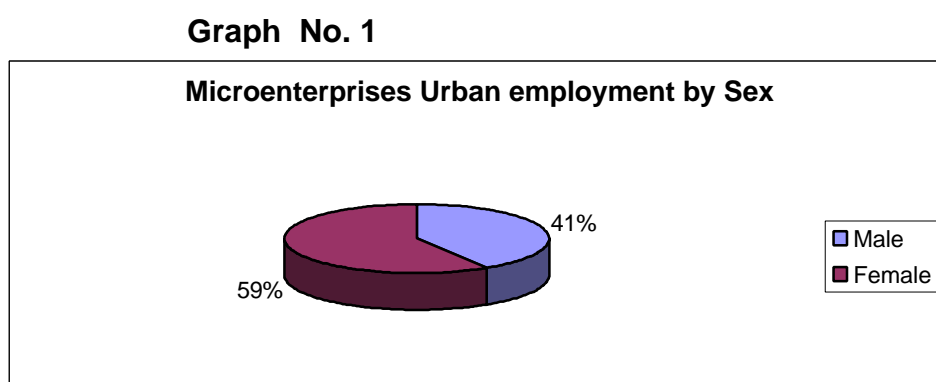
Urban:	Total Generated Employment:		Total country:
	Male	Female	
Total	285,770	424,840	710,610
Proprietors	171,634	331,260	502,894
Administrators	1,588	151	1,739
Operators	71,360	25,189	96,549
Apprentices	6,348	1,074	7,422
No remunerated	34,840	67,166	102,006

Source: Multipurpose Household Survey, 1999. Own Elaboration.

In the previous Table, it can be observed that female sex participation in the total of jobs generated by micro enterprises is the 59.8%, and the participation in the

occupational category is markedly higher in that of the proprietors with the 65.9% of the total. It must be observed, however, that in the administrators' category the proportion of micro entrepreneurs among men is extremely superior with the 91.3%, indicating that women's educational level could be a factor which prevent them from having incidence within that employment category. Other occupational categories, for example the operators and apprentices, are usually dominated by men; this is normally due to the kind of economic activity they carry out, in which the required kind of strength is that of a man. The employment described as "Non remunerated" refers to the employment within the family enterprise. Being women who predominate in this category with a 65.8% of the total.

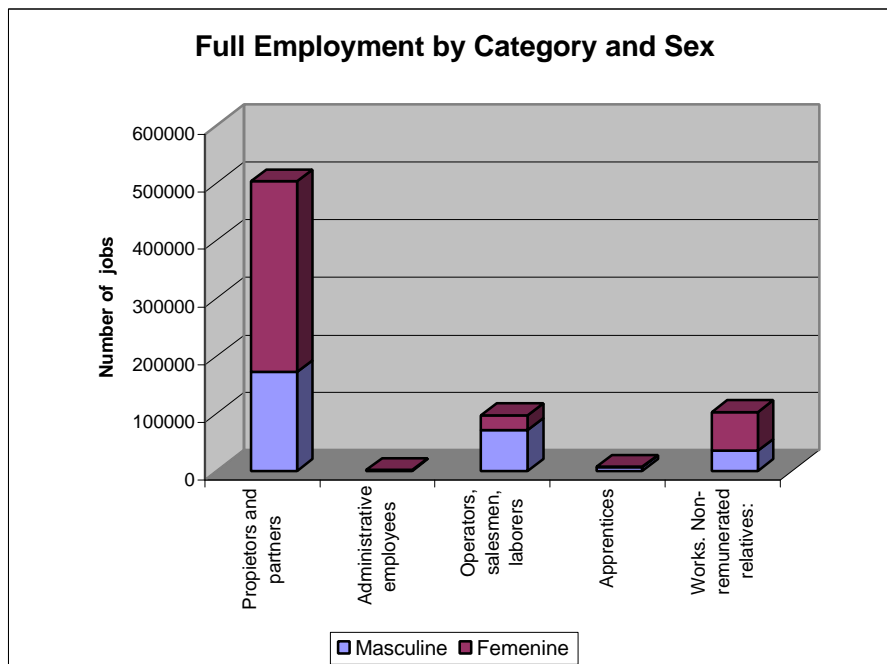
In Graph No. 1, a strong presence of the female sex in the micro entrepreneurial sector can be clearly seen.



In the previous graph, it is evident that women's predominance stands out in the micro enterprise development. 59% of the workers in the micro enterprises were women, according to the 1999 EHPM.

In Graph No. 2, the preponderance of women's participation in the micro entrepreneurial development can be observed

Graph No. 2



Source: EHPM. 1999.

It is also evident that women have a greater participation in the category of Proprietors and Partners than in that of Administrators and Operators-laborers; women's participation as non-remunerated workforce in the micro-enterprises, where they contribute with the family economy with their work, is also important.

E. Employment in the Micro enterprises by County town (Departamento, Spanish word).

In the next Table, reference is made to the micro enterprise employment distribution in the fourteen county towns of El Salvador. The idea is to show the concentration in a geographical area characterized as a strong polar influence, such is the case of the San Salvador urban axis - in the referred Table, Nueva San Salvador, the county towns of San Salvador, and La Libertad, concentrate the 49.1% of the total employment in the micro entrepreneurial sector. San Salvador concentrates the 34.8%. Among the county towns with the lowest level of employment in the micro enterprises are Cabañas with 9,915 and San Vicente with 12,534. Traditionally, Morazan is the county town having the lowest socio-economical indicators, however, it has a superior level of employments reaching the 19,305 employed people both women and men. Being Morazan the county town with the lowest social and economic rates, nevertheless, has a better micro entrepreneurial development, confirming the hypothesis that the increase in the

number of micro enterprises is higher when the economy, in this particular case the local economy , does not have the capacity to absorb the exciding workforce.¹

Table No. 8

Employment in the Micro enterprises, by Area and Sex, according to County town.

County towns	Urban		Rural		Total	
	Male	Female	Male	Female	Male	Female
Ahuachapán	4,368	6,576	5,355	8,415	9,723	14,991
Santa Ana	16,289	24,843	6,290	11,544	22,579	36,387
Sonsonate	13,160	20,496	7,820	13,192	20,980	33,688
Chalatenango	4,136	7,050	3,219	6,090	7,355	13,140
La Libertad	19,396	26,167	10,500	15,600	29,896	41,767
San Salvador	101,058	136,323	3,819	6,432	104,877	142,755
Cuscatlán	6,016	8,789	3,440	8,000	9,456	16,789
La Paz	7,392	13,216	6,794	8,374	14,186	21,590
Cabañas	2,375	4,100	1,040	2,400	3,415	6,500
San Vicente	2,622	6,232	1,040	2,640	3,662	8,872
Usulután	10,626	14,835	6,840	11,590	17,466	26,425
San Miguel	15,087	20,727	5,852	9,405	20,939	30,132
Morazán	4,884	5,907	2,924	5,590	7,808	11,497
La Unión	5,724	8,427	7,704	11,880	13,428	20,307
Totales	213,133	303,688	72,637	121,152	285,770	424,840

Source: Multipurpose Household Survey, 1999. Own Elaboration.

F. Permanent and Temporary Employments

Of the 710,610 employments reported in the 1999 Multipurpose Household Survey, 97.6% were permanent employments, pointing out the capacity of the micro entrepreneurial sector to generate employment, and its contribution to reduce poverty. Of those permanent employees, 39.1% were men and 60.9% were women. The temporality of jobs in the micro enterprises is only for some occupational categories, particularly, those such as operators, sellers and laborers which constitute the 60.4% of the temporary jobs, being men who predominate as temporary employees with a total of 52% of the total. There are 6.2 temporary female jobs per each temporal job, which emphasizes women's role in the micro entrepreneurial employment.

The following Table, explains the distribution by occupational category and by rural and urban areas.

¹ See Briones, Carlos "Microempresa y Transformación Productiva. FLACSO 1998. Pag.36

Table No. 9

Permanent and Temporary Employments in the Micro enterprise, 1999.

Area and Occupation Category:	Permanent		Temporal		Total:	
	Male	Female	Male	Female	Male	Female
Urban						
Proprietors and Partners	125,704	234,547	344	91	126,048	234,638
Administrative employees	1,519	151	69	0	1,588	151
Operators, sellers, laborers	50,294	21,436	7,275	1,328	57,569	22,764
Apprentices	1,522	200	4,182	556	5,704	756
Non- remunerated family jobs:	21,698	45,046	526	333	22,224	45,379
Total:	200,737	301,380	12,396	2,308	213,133	303,688
Rural:						
Proprietors and Partners	45,412	96,622	174	0	45,586	96,622
Administrative employees	0	0	0	0	0	0
Operators, sellers, laborers	12,292	2338	1,499	87	13,791	2,425
Apprentices	484	148	160	170	644	318
Non- remunerated family jobs:	12,616	21,715	0	72	12,616	21,787
Total:	70,804	120,823	1,833	329	72,637	121,152
Total Country:						
Proprietors and Partners	171,116	331,169	518	91	171,634	331,260
Administrative employers	1,519	151	69	0	1,588	151
Operators, sellers, laborers	62,586	23,774	8,774	1,415	71,360	25,189
Apprentices	2,006	348	4,342	726	6,348	1,074
Non- remunerated family jobs:	34,314	66,761	526	405	34,840	67,166
Total:	271,541	422,203	14,229	2,637	285,770	424,840

Source: Multipurpose Household Survey, 1999. Own Elaboration.

G. Detected Variations in the Level of Employment.

This part includes the variations in the level of employment according to the Multipurpose Household Survey. The registered variation rates in the working personnel, although they are not expected to be significant, they are very high. The next Table shows the referred increments to the Last Trimester up to the date of the Survey, where the variation in the "Apprentices" category for the urban sector is pointed out with an increment of the 54.8%. However, it is necessary to mention that that occupational category does not have much significance in the total employment composition. In the urban area, it only represented the 2.7% for the male sex and 0.2% for the female sex; therefore, those variations do not either

have a real effect in the general level. The registered increment, always for the urban area, was 2,286 new employments for the considered trimester.

Table No. 10
Variations in the Level of Employment, Referred to the Trimester Previous to the Survey.

Area and Occupation Category:	Present Trimester		Previous Trimester		Increment		Increment
	Male	Female	Male	Female	Male	Female	Total
Urban							
Proprietors and Partners	126,048	234,638	123,819	226,239	2	3.712	3.03
Administrative employees	1,588	151	1,588	151	0	0.00	0.00
Operators, sellers, laborers	57,569	22,764	56,409	21,929	2	3.80	2.54
Apprentices	5,704	756	3,431	743	66	1.75	54.76
Non-remunerated Family jobs:	22,224	45,379	21,732	44,417	2	2.16	2.19
Totals:	213,133	303,688	206,979	293,479	3	3.47	3.27
Rural:							
Proprietors and Partners	45,586	96,622	44,461	91,673	2.53	5.39	4.46
Administrative employees	0	0	0	0	0	0.000	0.00
Operators, sellers, laborers	13,791	2,425	13,846	2,197	-0.4	10.37	1.07
Apprentices	644	318	654	148	-1.53	114.86	19.95
Non-remunerated Family jobs:	12,616	21,787	12,560	21,143	0.45	3.04	2.07
Total:	72,637	121,152	71,521	115,161	1.56	5.20	3.80
Total Country:							
Proprietors and Partners	171,634	331,260	168,280	317,912	1.99	4.19	3.43
Administrative employees	1,588	151	1,588	151	0	0.00	0.00
Operators, sellers, laborers	71,360	25,189	70,255	24,126	1.57	4.40	2.29
Apprentices	6,348	1,074	4,085	891	55.40	20.53	49.15
Non-remunerated Family jobs:	34,840	67,166	34,292	65,560	1.60	2.45	2.15
Total:	285,770	424,840	278,500	408,640	2.61	3.96	3.41

Source: Multipurpose Household Survey, 1999. Own Elaboration.

From the same Table No. 10, one of the stated hypotheses can be confirmed: the increment in the micro entrepreneurial activity can be observed in the case of a declining economy, which can be the most salient situation in the previous Table; the employment level in the micro enterprises increases, coinciding with the 1999 economical results, when the Global Demand had experienced growths of 8.8% in 1997, and 9.3% in 1998; during the year of the survey (1999) it only grew in a 4.2%.

In the same Table No. 10, It can be observed that the number of "Proprietors and Partners" increased in a 3.4% during the analyzed trimester. Also, it can be observed that in the category "Administrators" there were no reported increments, which could be related either with a low growth level of complexity or with the size of the micro enterprises.

VI Behavior of the Economy and Development in the Micro entrepreneurial Economic Activity.

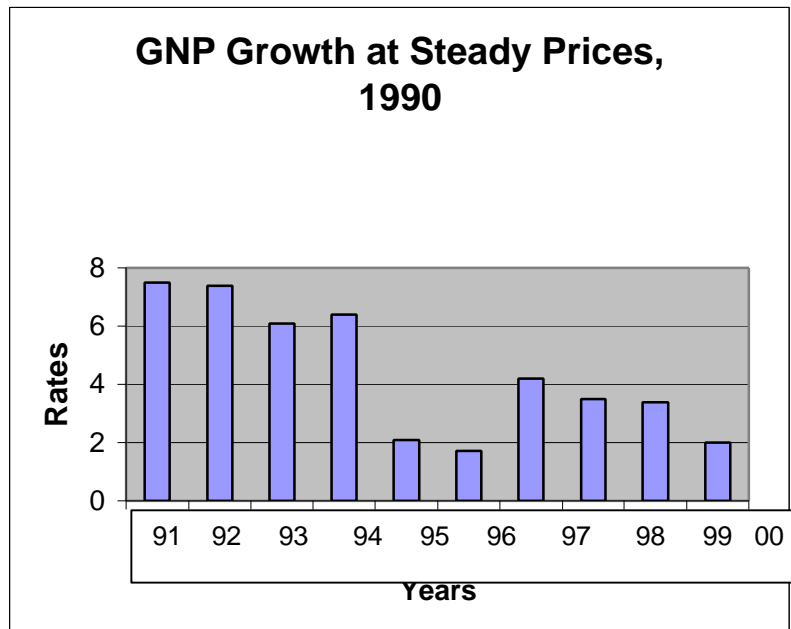
There exists a direct relationship between the economy, measured by the GNP growth in real terms, and the level of micro enterprises revenue. The micro enterprises growth cited by some authors is given in two senses: As the unemployment rises, there comes out a group of people that does not have access to new labor sources, "Although the most plausible explanation about the subsistence and propagation of the so called informal activities means the existence of an important structural overabundance of the labor force in the economy, it is not clear how the reproductive dynamics of the entrepreneurial sector can be reduced to that linear relationship." (Briones, Carlos: Microempresa y Transformación Productiva) and, apparently, it does not have another choice but to emigrate or to settle his/her own job, which always has the same characteristics of a micro enterprise. The other sense in which micro enterprises emerge is not parallel to the reduction of employment since these can decline due to the improvement between the capital-product relationship in the economy; that is to say, there is a migration of the labor force together with an up rise in the productivity, as has happened with the appearance of the new generation weaving machine, and in general, with the machinery and textile equipment as most frequent and relevant cases. In this case, there would be a displacement of the labor force - if this phenomenon of industrial modernization is generalized- then the economy all together could observe an acceptable level of development, generating an adequate environment for the development of micro enterprises.

The micro enterprise survival factors are given within the frame of the insertion in the markets - differentiated products; insertion in the markets, - products of high segmentation by income; insertion in the markets - products of high geographical segmentation and subordinated mercantile insertion.

Our hypothesis is based on the fact that the Salvadorian economy tends to generate large numbers of non-qualified labor force, which have a great difficulty to find permanent jobs. That just only during some periods, the economic growth has been positive under real terms, as had happened from 1991 to 1994, when the Peace Accords, the flow of family remittances, the coffee international prices, and the flow of tourists reactivated the economy together with other favorable contextual factors. From 1995, coinciding with the VAT increment from 10% to 13%, the economy started a declining process which shows no signs of improvement.

In the following graph, the tendency of the NGP is shown in general terms.

Graph No.3



Source: Banco Central de Reserva de El Salvador. Quarterly Magazines.

There exists an evident level of correlation between the micro entrepreneurial development, measured either as an increment in their number or as it should be, in the improvement of their revenues and the profitable levels.

The number of enterprises has the tendency to multiply; however, the Salvadorian economy has not observed real signs of recovery, adding to this, other various contextual factors which have affected the setting such as: Mitch Hurricane in November 1999; the two earthquakes on January 13 and February 13, 2001; particularly the second one which destroyed more than 43 thousand micro enterprises; other factors that can be mentioned are the increment in the prices of the derivative products of the petroleum; the drastic declension in the coffee international prices among other adverse factors which have affected the economic growth.

VII. Restrictions to the Employment Generation in the Micro entrepreneurial Sector.

A. Restrictions derived from the setting.

Although one of the studied situations tends to show that the declension of the economy generates a larger number of enterprises, as has been said by Carlos Briones in his book "Microempresas y Transformación Productiva" (cited book), the micro enterprises keep minor utility levels as the GNP decelerates. In the document "Características del Sector Microempresarial Salvadoreño" (CONAMYPE, 2001, Spanish acronym) it has been stated in the Executive Summary, that "along 1998 there was a massive rise in the number of people who found permanent salaried jobs as the number of people who had their own businesses was reduced in a 4%," it adds "... the number of people working on their own sole employee enterprises was reduced in a 12% that same year." Also, the same document makes reference to that, "...in 1999, the number of people working on their own businesses increased again when the permanent jobs came to a standstill.

In effect, with the declension of the economic activity with its subsequent effects on the employment level, the micro enterprises whose reported number was 521 thousand in 1997, reduced to 497 thousand in 1998, it rose noticeably in 1999 when the economic reduction intensifies; as has been indicated by the figures in the Added Demand, the number of micro enterprises increased to 512 thousand. The figures confirm that when the economy does not have the capacity to absorb the exceeding labor force, this propitiates the creation of new enterprises which represent an additional source of income for the unemployed.

The problems generated by the setting do not refer only to the economic aspect, where the market reduction affects the level of sales. The interviewed also point out the strong competition on the part of other enterprises and the delinquency. In 1999, the delinquency was one of the factors which significantly affected the entrepreneurial development, in general.

The reduction in the demand can be seen from the deterioration suffered in the real level of the salaries; that is to say, that the consumer's purchasing power has suffered a deterioration estimated in a 22% in the period going from 1988 to 2000²

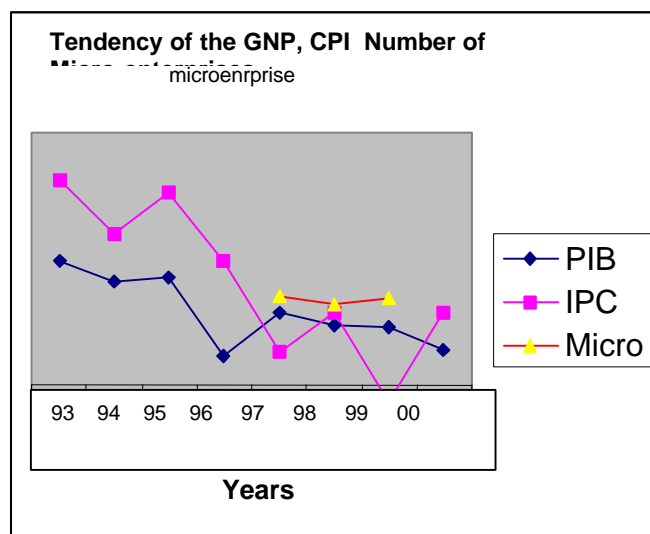
Also it should be mentioned that the problems in the setting, specifically with regard to the economy situation, also had a totally unfavorable context for the

² Características del Sector Microempresarial Salvadoreño, CONAMYPE 2001. pp 86.

generation of new employments; on the contrary, there was a declension in it; thus forcing the unemployed to open small businesses.

The following graph shows the tendency of the economy and the prices general level measured by the Consumer Prices Index (IPC, Spanish acronym).

Graph No. 4



It is interesting to point out that as the GNP (represented in the graph in growth rates in the 1990 prices) decreases, micro enterprises (only the three-year-available truth worthy information has been used here) tend to increase in number. The Consumer Price Index has been included to emphasize an additional factor which contributes to the economic frame deterioration by experiencing an increase in the 2000, after keeping a tendency that situated it even within the negative figures (-1.0 in 1999)

B. Restrictions derived from the Legal Requirements.

Legal problems are inherent to the micro entrepreneurial sector. There are too many requirements to legalize an enterprise such as the 42 steps-requirements to do it. Besides, once the enterprise is already legally constituted, the micro enterprise has to fulfill the legal requirements which mean expenditures and waste of time. The annual costs of having an accounting system is considered within the \$1,400 rank; starting with an initial cost rank of \$650, which includes payments to the Mayor's Office, Treasury Ministry, Registry National Center, Social Security, and others.

A clear evidence of the minimal formal constitution of the micro enterprises is presented by the EHPM when it refers to their affiliation to the Salvadorian Social Security Institute; the figures show that only the 4.7% of the total micro enterprises are affiliated to the Social Security Institute. 6.2% of them belong to the urban area. The percentage of the non-affiliated reaches the 95% in the rural area, and the 87.4% in the urban area. When referring to a group as affiliated or non-affiliated, to the productive segments, it is found that among the subsistence micro

entrepreneurs with utilities under those of a monthly minimum wage (¢1,260)(an equivalent to US \$144) only 3.3% were affiliated to the Social Security. The percentage of affiliation increases in the following segment, the one for the subsistence with utilities higher to a minimum wage, that is a 4.5%; in a simple accumulation, the percentage is 13.1%; and for the extended accumulation it is the 14.1%.

In regard to the accounting legalization, only the 20% of the micro enterprises keep some kind of accounting record; only the 2% among all segments keep a formal accounting record. By segments, the lower subsistence level (utilities under the minimum wage) only the 0.4% keeps a formal accounting record. The subsistence segment with higher utilities than the minimum wage keeps a formal accounting record in a 2.2% of the cases; and in simple and extended accumulation the percentages reach the 10.8% and the 29.3%, respectively. As it has been pointed out before, the cost of legalization represents a strong restriction for the development of the business administration among the micro enterprises.

C. Restrictions Derived from the Managerial Capacity.

Managerial problems do not escape to micro enterprises. The lack of knowledge of the most basic aspects to run a business are reflected in the EHPM when data on the number of training courses taken by micro entrepreneurs in 1999 is presented: 4.9%. If taken into consideration that the 51% of the micro enterprises are of subsistence, and that this segment is the one with the problem of the lowest human capital quality among the three strata in which the micro enterprise is classified, it explains the tenuous links of these with the institutions in charge of different kinds of training.

To prove the micro entrepreneurs' low capacity to even start an effective training program, a Table with their educative level is presented.

Table No. 11

Micro entrepreneur Education Level. Percentages by Areas, 1999

Studies:	Total	Urban	Rural
None	23.0	18.2	35.7
From 1 to 3 grade	21.3	18.7	28.0
From 4 to 6 grade	25.9	26.7	23.7
From 7 to 9 grade	14.7	16.7	9.5
From 10 to 12 grade	11.9	15.3	3.0
High University Studies	2.2	3.0	0.1
High Non-University Studies	1.0	1.3	0.1
Average Education	4.66 years	5.29 years	2.91 years
Vocational Education	9.5%	10.5%	6.8%

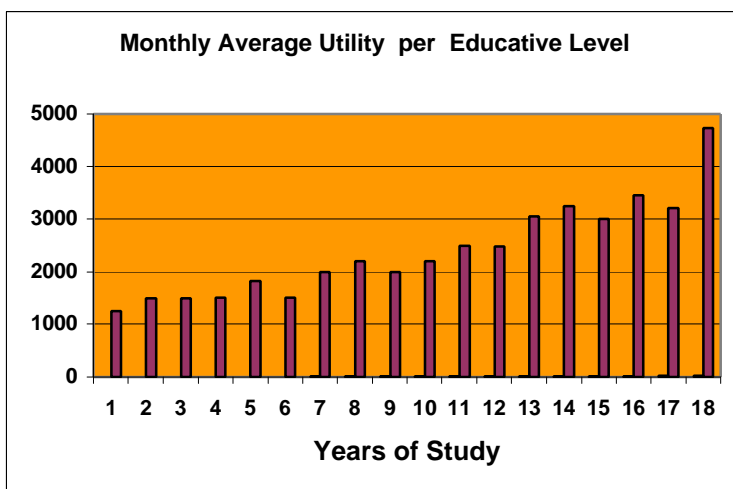
Source: Characteristics of the Salvadorian Micro entrepreneurial Sector. CONAMYPE. 2001.

It is evident that most of the micro entrepreneurs (almost the 70%) have an education level under the six grade. The micro entrepreneurs' schooling average in the urban area is hardly 5.29 years. The restriction to the micro entrepreneurial quality starts with the poor academic formation of most micro entrepreneurs.

The quality of information micro entrepreneurs have, and over all, the access they can have to improve their selling levels or identify suppliers or clients who can give them more advantageous conditions of prices and supplies is only achieved in isolated cases.

The next illustrative graph is presented as a corollary to the affirmation that the micro entrepreneurs who reach higher Education levels and managerial formation can have access to better income opportunities.

Graph No.5



Source: Characteristics of the Salvadorian Micro entrepreneurial Sector, CONAMYPE. 2001.

It is evident that a strong limitation for micro entrepreneurs is their access to training programs because of income, (or costs), or time, and the conviction that an adequate training program can improve their income levels..

VIII. Conclusions.

- i. Micro enterprises emerge when the economy does not have the capacity to absorb the labor force which has two options: to emigrate to try to find new perspectives abroad or try to establish his/her own business, what becomes the commerce sector. A third option has been to form part of the delinquent gangs; although a delicate topic, it is part of the national situation. This conclusion is supported by the

figures of the EHPM when the foundation date of the micro enterprises is known: the 21.1% of the total came out in 1998 and 1999.

- ii. Although micro enterprises emerge either when the permanent employments decrease or when their growth rhythm decreases, their sales are affected by problems of the rising of the Product.
- iii. The employment generation by the sector, is highly significant. In 1999, the employment in the micro enterprises represented the 41.7% of the total employment in El Salvador.
- iv. Women participation and the micro enterprises located in the urban area are factors that have contributed to absorb the inefficiency of the system to generate employment. The female sex working in the micro enterprises, represents the 51.6% of the Working Population (PEA, Spanish acronym), and the 54.1% of the total in relation to their sex at a national level.
- v. Micro entrepreneurs have different kinds of restrictions: The setting is unfavorable in the present context; they do not have access to a systematic training that help them to improve their levels of production, and therefore, to improve their employment generation capacity.
- vi. An important restriction is the difficulty they have to achieve a level of legal constitution of their enterprises; to establish themselves as corporate persons there are 40 legal requisites to fulfill. The cost that this involves and the needed time to legalize them lay down restrictions for the micro entrepreneurial development. Many enterprises will be obliged irremediably, by the already mentioned restrictions, to keep within levels of subsistence, or to grow neither in size nor in complexity.

a. References

- i. Encuesta de Hogares de Propósitos Múltiples, 1998 y 1999, DIGESTYC, Ministerio de Economía, El Salvador.
- ii. Banco Central de Reserva de El Salvador, Revista Trimestral, varias.
- iii. Banco Central de Reserva de El Salvador, Boletín Económico, varios.
- iv. Mercado laboral, demandas de calificación y experiencias de interconexión de sistemas de capacitación y empleo. Amargós, Oscar, OEI, GTZ Agosto 2000.
- v. El Salvador: juventud y mercado de trabajo, De Morera, Aída Arguello: FLACSO, diciembre 2000.
- vi. Informe sobre la Reconceptualización del Proyecto “Programa de Integración y Fomento de Empleo” en El Salvador. KLENK, JURGEN; STEIGLER, HORST. Octubre 1997.
- vii. Inserción laboral de jóvenes: Seminario taller Latinoamericano. Unión Europea, GENESIS, 1997.
- viii. Estudio de Pre-factibilidad Sobre las Necesidades de Capacitación para el Fomento del Empleo y de la microempresa. Programa de Integración y Fomento de Empleo/GTZ 1997.
- ix. Estrategias de Formación y Capacitación Orientadas a Mejorar las Oportunidades de Empleo para Grupos Meta del Sector Informal. GTZ,1997.
- x. La Promoción a la Micro, Pequeña y Mediana Empresa en América Central: Instituciones, políticas e instrumentos de fomento en El Salvador, Guatemala, Honduras, Nicaragua. Red sectorial de Proyectos para el Fomento Económico y de Empleo en América Central y el Caribe; Deutsche Gesellschaft fur Technische Zusammenarbeit GTZ. Junio 1999.
- xi. Estrategias de Formación y Capacitación orientadas a mejorar las oportunidades de empleo para grupos meta del sector informal. GTZ ,1997.

- xii. Una Tipología de Micro y Pequeñas Empresas en la República de El Salvador: Un estudio de casos en los Departamentos de Ahuachapán, Chalatenango, Santa Ana y Sonsonate. Alvarez, Gustavo; Benencia, Roberto; Giménez, María Laura; Quaranta, Germán. Cooperación Técnica República de El Salvador República de Alemania; Programa de Integración y Fomento del Empleo Proyecto GTZ EMPRENDE, 1997.
- xiii. Seminario taller retos de la Inserción Laboral de Jóvenes, 24 y 25 de Abril, 1997. CREFAC, GTZ, FORMARE, FEPADE FE Y ALEGRIA, 1997.
- xiv. Microempresas y Transformación Productiva. Carlos Briones; San Salvador, El Salvador. FLACSO, GÉNESIS, Febrero 1998.